

Message Text

SECRET

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ACTION SS-30

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O 161235Z JUL 74

FM AMEMBASSY CAIRO

TO SECSTATE WASHDC IMMEDIATE 7788

S E C R E T SECTION 1 OF 2 CAIRO 5224

EXDIS

DEPT PASS TREASURY

E.O. 11652: GDS

TAGS: OVIP (SIMON, SECRETARY) PFOR

SUBJECT: SECRETARY SIMON'S CALL ON PRESIDENT SADAT

1. SECRETARY SIMON MET WITH PRESIDENT SADAT JULY 15 IN ALEXANDRIA. ALSO PRESENT ON EGYPTIAN SIDE WERE DEPPRIMIN HEGAZI, FONMIN FAHMY, MINFIN ABDUL FATAH, MINPLANNING SABRI AND ABM ASHRAF GHORBAL; ON US SIDE, UNDER SECRETARY BENNETT, ASST SECRETARY PARSKY AND AMBASSADOR. MEETING LASTED ABOUT AN HOUR. SUMMARY OF DISCUSSION FOLLOWS:

GA2. PRESIDENT SADAT WARMLY WELCOMED SECRETARY SIMON. HE NOTED THAT THE SECRETARY'S ARRIVAL IN EGYPT CAME AT A "DECISIVE MOMENT". DURING PAST WEEK SOVIETS HAD AGAIN "PUT SQUEEZE" ON HIM. FONMIN FAHMY HAD BEEN SCHEDULED TO GO TO MOSCOW TO RESOLVE OUTSTANDING PROBLEMS BETWEEN EGYPTIANS AND SOVIETS. VISIT HAD BEEN ANNOUNCED IN CAIRO AND MOSCOW, THEN SOVIETS SUDDENLY SENT WORD POSTPONING THE MEETING. PERHAPS SOVIETS BELIEVE, SADAT CONTINUED, THEY CAN INTIMIDATE HIM. THEY CANNOT. HE RECALLED THAT HE HAD EXPELLED 15,000 SOVIET ADVISORS IN 1971. HE HAD TOLD THE SOVAMB AT THE TIME THAT IF USSR WANTED HIM AS A STRONG FRIEND, THEY COULD COOPERATE. HE WAS NOT PREPARED TO BE A WEAK FRIEND. HE HAD ALREADY DECIDED ON HIS POLICY AS FAR BACK AS 1971.

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3. NEW SITUATION PLACES RESPONSIBILITY ON HIM, HOWEVER,

TO OBTAIN NEEDED RAW MATERIALS AND SPARE PARTS FOR HIS FACTORIES. THE PRESIDENT THOUGHT THAT SOME WAY WILL BE FOUND. THE PRESIDENT POSED THE QUESTION HOW SHOULD

WE TOGETHER FIND THE MOST APPROPRIATE BEGINNING IN OUR RELATIONS? IT IS TIME TO BEGIN NOW.

4. THE TASK IS GREAT, HE CONTINUED. RECONSTRUCTION IS REQUIRED IN EGYPT AND NEEDS "VISION AND SPEED". THE PRESIDENT RECALLED HE HAD ALWAYS TOLD THE SOVIETS A) NO SOVIET SOLDIERS WERE WANTED TO FIGHT HIS BATTLES, AND B) THERE SHOULD BE NO CONFRONTATION BETWEEN US AND USSR OVER EGYPT. THE PRESIDENT THEN SPOKE OF HIS GREAT CONFIDENCE IN SECRETARY KISSINGER. WHEN SECRETARY KISSINGER HAD SPOKE TO HIM ABOUT THE OIL EMBARGO, HE HAD ASSURED THE SECRETARY THAT HE COULD BE COUNTED UPON AS A STRONG FRIEND IN THE MIDDLE EAST AREA. THE PRESIDENT EXPRESSED PLEASURE ABOUT THE UNDERSTANDING THAT HAS DEVELOPED BETWEEN THE TWO COUNTRIES. HE HOPED THE UNITED STATES IS EQUALLY PLEASED.

5. SECRETARY SIMON ASSURED THE PRESIDENT THAT THE US SHARES HIS VIEWS. BOTH PRESIDENT NIXON AND SECRETARY KISSINGER HAD TALKED WITH SECRETARY SIMON BEFORE THE LATTER BEGAN HIS TRIP. HIS MISSION, SECRETARY SIMON STRESSED, IS TO SEE THAT THE RELATIONSHIP CONTINUES. THERE ARE NO INSTANT ECONOMIC MIRACLES, BUT WITH GOOD WILL AND HARD WORK, HE WAS CONFIDENT THAT THERE WILL BE ACCOMPLISHMENTS. THE SECRETARY RECALLED HIS MEETING THE PREVIOUS DAY WITH DR. HEGAZI DURING WHICH MECHANISMS OF EFFECTIVE COOPERATION HAD BEEN AGREED UPON. HE ALSO MENTIONED THE DEVELOPMENT PROJECT INSTITUTE TO PREPARE NEEDED FEASIBILITY STUDIES. ADDITIONALLY, THE SECRETARY HAD HEARD A BRIEFING BY MINISTER OF PETROLEUM HILAL, WHICH HAD MADE HIM VERY OPTIMISTIC.

6. HEGAZI RELATED TO THE PRESIDENT THAT HE HAD OUTLINED TO SECRETARY SIMON THE PROBLEMS EGYPT IS ENCOUNTERING IN RESTRUCTURING ITS ECONOMY. THE YEARS 1974-75 WILL
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BE MOST PRESSING. FOODSTUFFS, VEGETABLE OILS NEED BE GOTTEN, IDLE INDUSTRIAL CAPACITY NEEDS TO BE REACTIVATED AND THE SUEZ CANAL MUST BE REOPENED. HEGAZI NOTED THAT \$182 MILLION IS REQUIRED FOR REOPENING THE CANAL; \$90 MILLION IS ALREADY AVAILABLE FROM IBRD AND OTHER SOURCES. THE BALANCE WAS STILL TO BE OBTAINED. PRESIDENT SADAT INTERJECTED JOCARLY. "WHY NOT SQUEEZE" SECRETARY SIMON.

7. THE SECRETARY POINTED OUT THAT OF THE REQUESTED \$250 MILLION ECONOMIC AID, A LARGE PORTION IS EXPECTED TO BE APPLIED TO CANAL REOPENING. SPEAKING WITH GREAT FEELING, THE PRESIDENT EXPRESSED APPRECIATION FOR US HELP IN OPENING THE CANAL. HE LAUDED THE WAY IN WHICH THE US HAD HANDLED THIS MATTER. IN CONTRAST, THE SOVIETS HAD INSISTED THAT ANY HELP SHOULD BE REPAID FROM SUEZ CANAL TOLLS. SADAT HAD REFUSED. THE PRESIDENT SAID HE WANTED US UNDERSTANDING OF EGYPT'S PROBLEMS, ESPECIALLY ITS URGENT PROBLEMS.

8. SECRETARY SIMON OBSERVED HE HAD OBTAINED GREAT MANY FACTS AND FIGURES. NEXT TWO YEARS IN PARTICULAR WILL REQUIRE A COMPLETE STRUCTURAL ANALYSIS OF EGYPT'S SITUATION. WE WILL ALSO SPEAK TO THE CONGRESS, CONFIDENTIALLY, ON HOW IMPORTANT ASSISTANCE TO EGYPT IS. ALL THIS WILL BE DONE WITH "DELIBERATE HASTE".

9. PRESIDENT SADAT EXPRESSED APPRECIATION. HE NOTED THAT THE AMERICAN IMAGE HAD CHANGED IN THE AREA SINCE THE CEASE-FIRE AND SECRETARY KISSINGER'S EFFORTS UNDERTAKEN ON PRESIDENT NIXON'S INSTRUCTIONS. THESE PEACE EFFORTS MUST CONTINUE. SECRETARY SIMON OBSERVED THAT WE CANNOT GUARANTEE WE WILL BE ABLE TO DO EVERYTHING WE SET OUT TO DO, BUT ASSURED THE PRESIDENT THAT HE COULD HAVE CONFIDENCE IN THE THRUST OF OUR POLICY.

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S E C R E T SECTION 2 OF 2 CAIRO 5224

EXDIS

DEPT PASS TREASURY

10. PRESIDENT SADAT AGAIN REFERRED TO SUEZ CANAL AREA RECONSTRUCTION. SPECIFICALLY, HE SUGGESTED THAT THE RECONSTRUCTION OF PORT SAID MIGHT BE AN APPROPRIATE AREA FOR OUR NEW RELATIONSHIP. HE RECALLED THAT WARM WELCOME THAT PRESIDENT NIXON HAD RECEIVED IN EGYPT REFLECTED A PUBLIC DESIRE TO TELL THE US THEY WANTED TO BE FRIENDS. SECRETARY SIMON ASSURED THE PRESIDENT THERE WOULD SOON BE TRUE MOTION. THE MECHANISMS ARE BEING ESTABLISHED TO WORK ON PROGRAM FOR THE FUTURE. HE ALSO NOTED THAT AN INVESTMENT GUARANTY AGREEMENT WOULD BE SIGNED THE FOLLOWING DAY AS A MEANS OF ATTRACTING PRIVATE INVESTMENT AND THAT WE ARE WORKING ON TAX TREATY WHICH WILL AVOID DOUBLE TAXATION. IT SHOULD NOT CONTAIN "TAX SPARING" PROVISION. SECRETARY SIMON ALSO URGED THAT THE INVESTMENT LAW BE FLEXIBLY ADMINISTERED.

11. PRESIDENT SADAT SAID THAT AMERICANS WILL FIND EGYPT A GOOD FIELD FOR INVESTMENT. EGYPT INTENDS TO DEVELOP WITH THE MOST RECENT TECHNOLOGY. INVESTMENT WILL MOREOVER BE SECURE. SECRETARY SIMON OBSERVED THAT AMERICAN OIL COMPANIES HAVE ALREADY SHOWN GREAT INTEREST. PRESIDENT SADAT SUGGESTED THEY SHOULD ALSO LOOK AT THE WESTERN DESERT AREAS.

12. THE SECRETARY INDICATED THAT HE WILL WANT TO DISCUSS
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WITH EX-IM BANK AND IBRD WHAT KIND OF HELP CAN BE OFFERED. HE UNDERSTOOD FOMIN FAHMY AND A DELEGATION WILL COME TO WASHINGTON IN AUGUST, AT WHICH TIME THESE MATTERS CAN BE FURTHER EXPLORED. THE SECRETARY ALSO MENTIONED THAT HE HAD ALREADY SPOKEN TO MINISTER OF SOCIAL AFFAIRS ON POPULATION CONTROL. FOR PL 480

FUNDS, EGYPT WILL BE AMONG THE HIGHEST PRIORITY COUNTRIES. IN THIS CONTEXT, THE SECRETARY NOTED, WHEAT CROP ESTIMATES ARE 7 PERCENT LOWER THAN EARLIER PROJECTIONS, BUT STILL 10 PERCENT ABOVE LAST YEAR'S CROP. THE SECRETARY HOPED THAT PETROLEUM PRICES WILL GO DOWN. A 30 PERCENT REDUCTION WOULD HELP A GREAT DEAL. HE INDICATED HE WOULD BE TALKING TO THE EUROPEANS ON THIS MATTER. THE SECRETARY NOTED THAT HEGAZI WILL BE COMING TO THE IMF MEETING. THIS WILL PROVIDE ANOTHER OPPORTUNITY TO DISCUSS HOW WE CAN HELP. THE PRESIDENT APPROVED THE IDEA, STRESSING THE NEED FOR AN INCREASED EXCHANGE OF PERSONS. THE SECRETARY SAID HE WILL ALSO BE GOING TO SAUDI ARABIA AND KUWAIT. THE PRESIDENT RESPONDED THAT IT IS IMPORTANT TO DO SO. THERE IS A GREAT

ACCUMULATION OF CAPITAL IN KUWAIT.

13. THE PRESIDENT CONTINUED THAT THE PAST SEVEN YEARS, EGYPT'S SERVICES, INVESTMENT, ETC. HAD BEEN NEGLECTED. HELP IS NEEDED TO RESTORE THESE. NOTING THAT THE SECRETARY WILL BE GOING TO GERMANY, HE ASKED THAT A WORD BE SAID TO SCHMIDT TO ASSIST EGYPT. THE SECRETARY AGREED TO DO SO. THE PRESIDENT ASKED THAT HIS THANKS BE CONVEYED TO PRESIDENT NIXON FOR SENDING SECRETARY SIMON. THE SIGNIFICANCE OF THIS VISIT MEANS A GREAT DEAL TO EGYPT.

14. HEGAZI THEN SPOKE TO THE PRESIDENT BRIEFLY IN ARABIC. FROM WHAT I COULD OVERHEAR, HE TOLD THE PRESIDENT ABOUT THE SECRETARY'S SUGGESTION THAT THE EGYPTIANS SETTLE THEIR OUTSTANDING \$56 MILLION POUNDS DEBTS SO AS TO NOT BE IN DEFAULT. HEGAZI WAS A BIT TEPID ON THE IDEA, BUT THE PRESIDENT TOLD HIM HE SHOULD BE FLEXIBLE.

15. PRESIDENT SADAT STRESSED HIS DESIRE TO COOPERATE
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WITH THE US. SECRETARY SIMON TOLD THE PRESIDENT THAT HE HAD GOTTEN HEGAZI AND OTHER MINISTERS' THOUGHTS, WHICH HE WOULD REPORT TO PRESIDENT NIXON. SADAT REITERATED HIS "DEEPEST THANKS" TO PRESIDENT NIXON, SECRETARY KISSINGER AND TO SECRETARY SIMON FOR THEIR INTEREST. SECRETARY SIMON ASSURED THE PRESIDENT THAT IT IS PRESIDENT NIXON'S EARNEST DESIRE TO ASSIST AS FEASIBLE.
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